

ALMONT COMMUNITY SCHOOLS

ALMONT, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 2, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Almont Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Almont Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Almont Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Almont Community Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2005 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VII and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Almont Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

ALMONT COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Almont Community Schools, a K-12 school District located in Lapeer County, Michigan, is in its third year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Almont Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

ALMONT COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

District Wide Financial Statements: (Continued)

These two statements report the Almont Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

NET ASSETS SUMMARY

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets	\$9,909,792	\$19,125,749
Non-Current Assets	<u>37,332,364</u>	<u>27,378,463</u>
<u>TOTAL ASSETS</u>	<u>\$47,242,156</u>	<u>\$46,504,212</u>
<u>LIABILITIES</u>		
Current Liabilities	\$6,222,913	\$5,435,620
Long-Term Liabilities	<u>39,434,255</u>	<u>39,991,240</u>
Total Liabilities	\$45,657,168	\$45,426,860
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt (Deficit)	(846,171)	(1,054,504)
Restricted - Debt Service	249,942	210,574
Unrestricted	<u>2,181,217</u>	<u>1,921,282</u>
Total Net Assets	<u>\$1,584,988</u>	<u>\$1,077,352</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$47,242,156</u>	<u>\$46,504,212</u>

ALMONT COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$808,338	\$803,888
Property Taxes Levied for Debt Service	2,416,822	2,267,540
State of Michigan Unrestricted Foundation Aid	11,475,396	10,991,561
Other General Revenues	<u>316,351</u>	<u>736,746</u>
Total General Revenues	\$15,016,907	\$14,799,735
<u>Operating Grants:</u>		
Federal	377,014	352,714
State of Michigan	171,780	189,249
Other Grants	<u>55,715</u>	<u>0</u>
Total Operating Grants	\$604,509	\$541,963
<u>Charges for Services:</u>		
Food Service	310,377	278,796
Athletics	37,814	36,680
Other Charges for Services	<u>188,596</u>	<u>192,409</u>
Total Charges for Services	<u>\$536,787</u>	<u>\$507,885</u>
Total Revenues	\$16,158,203	\$15,849,583
<u>EXPENSES</u>		
Instruction & Instructional Support	8,262,314	7,651,413
Support Services	4,487,113	4,310,410
Community Services	139,173	144,009
Food Service	411,110	422,462
Athletics	276,258	296,224
Bond Issuance Costs	0	147,456
Other Capital Project Expenses	161,467	345,952
Interest on Long-Term Debt	1,733,154	2,671,281
Depreciation	<u>167,453</u>	<u>167,453</u>
Total Expenses	<u>\$15,638,042</u>	<u>\$16,156,660</u>
<u>INCREASE IN NET ASSETS</u>	\$520,161	(\$307,077)
<u>BEGINNING NET ASSETS - AS RESTATED</u>	<u>1,064,827</u>	<u>1,384,429</u>
<u>ENDING NET ASSETS</u>	<u><u>\$1,584,988</u></u>	<u><u>\$1,077,352</u></u>

ALMONT COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets increased by \$520,161 to a total of \$1,584,988. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$208,333 during the year due to additional borrowing from the Michigan School Bond Loan Fund and purchases of new capital assets exceeding depreciation and principal payments on related debt. The districts Unrestricted Net Assets increased by \$259,935 during the year and the restricted portion of the net assets increased by \$39,368. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$520,161. The total revenues increased by \$308,620 or 2% over last years amounts. The major changes were an increase in unrestricted state aid due to full funding of the student foundation allowance and an increase in the number of students in the district. Expenditures decreased by \$518,618 or 3% over last year. Major change was a decrease in interest on general long-term debt.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$293,481 during the year with the increase coming primarily from an increase in cash. Revenues and other financing sources for the year increased by \$584,625 primarily due to an increase in unrestricted state aid due to full funding of the student foundation allowance and an increase in the number of students in the district. Expenditures and other financing uses increased by \$601,385, due to increases in wages and fringe benefit costs. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Almont Community Schools foundation allowance was \$6,700 per student for the 2004-2005 school year.

ALMONT COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2004-2005 was 1,842 students. An increase of 55 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$808,338. An increase of \$4,450 from the prior year.

Capital Projects Fund

The districts Capital projects fund balance decreased by \$10,445,051 as the District's construction project continues. Investment earnings are the primary source of revenue in the fund and they decreased by \$420,988 from the previous year. Expenditures, which are restricted for construction projects increased by \$1,842,047 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final Budget %
Revenue	\$12,670,688	\$12,932,506	\$13,041,527	2.07	0.84
Expenditures	13,128,871	12,904,262	12,748,046	1.71	1.21
<u>TOTAL</u>	<u>(\$458,183)</u>	<u>\$28,244</u>	<u>\$293,481</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Almont Community Schools amends its budget during the school year. The June, 2005 budget amendment was the final budget for the fiscal year. The variations between original and final budgets for revenue were due to conservative estimation of the state aid foundation allowance and the new student increase. The variations between the original and final budgets and actual results for expenditures varied slightly due to conservative estimates of wage and fringe benefit costs.

ALMONT COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-1-04	Increases 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
School Bond Loan Fund	\$2,479,559	\$937,992	\$0	\$3,417,551
Building & Site Bonds	38,995,000	0	1,650,000	37,345,000
Durant Bonds	62,312	0	0	62,312
Compensated Absences	104,369	4,744	0	109,113
<u>Total Long-Term Debt</u>	<u>\$41,641,240</u>	<u>\$942,736</u>	<u>\$1,650,000</u>	<u>\$40,933,976</u>

Significant debt transactions for the year besides the required principal and interest payments was the activity of the Michigan School Bond Loan Fund as follows:

The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years sufficient to extinguish the interest and principal requirements of the 1987 Debt Issue as they become due. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements for the 1987 Debt Issue. The loan shall bear interest at the average interest rate computed to the nearest one-eighth of one percent, paid by the State on obligations issued pursuant to Section 16 of Article IX of the State Constitution of 1983. Interest of \$95,435 has been assessed for the year ended June 30, 2005, and is included in the amount owing the State at that date. The principal balance as of June 30, 2005 was \$3,417,551.

B. Capital Assets

The district's net investment in capital assets decreased by \$549,708 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
Capital Assets	\$23,290,367	\$0	\$0	\$23,290,367
Less: Accumulated Depreciation	(5,785,672)	(549,708)	0	(6,335,380)
<u>Net Investment Capital Outlay</u>	<u>\$17,504,695</u>	<u>(\$549,708)</u>	<u>\$0</u>	<u>\$16,954,987</u>

FUTURE ISSUES AFFECTING THE DISTRICT

The District will put its new Middle School into operation in August, 2005. Additional operating costs will be incurred by the District when the new building is opened.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Almont Community Schools.

ALMONT COMMUNITY SCHOOLS
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$2,438,311	\$12,295,842
Investments	5,282,670	4,776,467
Taxes Receivable	13,364	0
Accounts Receivable	538	738
Due from Other Governmental Units	2,167,935	2,041,700
Inventory	6,974	11,002
Total Current Assets	<u>\$9,909,792</u>	<u>\$19,125,749</u>
<u>NON-CURRENT ASSETS</u>		
Construction in Progress	20,377,377	9,873,768
Capital Assets	23,290,367	23,290,367
Less: Accumulated Depreciation	<u>(6,335,380)</u>	<u>(5,785,672)</u>
Total Noncurrent Assets	<u>\$37,332,364</u>	<u>\$27,378,463</u>
<u>TOTAL ASSETS</u>	<u>\$47,242,156</u>	<u>\$46,504,212</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	1,406,017	1,142,287
State Aid Note Payable	1,500,000	1,016,044
Due to Other Governmental Units	7,788	0
Salaries Payable	831,149	752,409
Accrued Expenses	978,238	866,277
Deferred Revenue	0	8,603
Current Portion of Long-Term Obligations	<u>1,499,721</u>	<u>1,650,000</u>
Total Current Liabilities	<u>\$6,222,913</u>	<u>\$5,435,620</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>39,434,255</u>	<u>39,991,240</u>
<u>TOTAL LIABILITIES</u>	<u>\$45,657,168</u>	<u>\$45,426,860</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	(846,171)	(1,054,504)
Restricted for:		
Debt Retirement	249,942	210,574
Unrestricted	<u>2,181,217</u>	<u>1,921,282</u>
<u>TOTAL NET ASSETS</u>	<u>\$1,584,988</u>	<u>\$1,077,352</u>

See accompanying notes to the basic financial statements.

ALMONT COMMUNITY SCHOOLS
STATEMENTS OF ACTIVITIES
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004	
	Expenses	Charges For Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue & Change in Net Assets	Net (Expense) Revenue & Change in Net Assets
Governmental Activities:					
Instruction	\$8,262,314	\$0	\$419,853	(\$7,842,461)	(\$7,267,946)
Support Services	4,487,113	188,596	65,468	(4,233,049)	(4,092,103)
Community Services	139,173	0	0	(139,173)	(144,009)
Food Service	411,110	310,377	119,188	18,455	(11,068)
Athletics	276,258	37,814	0	(238,444)	(259,544)
Bond Issuance Costs	0	0	0	0	(147,456)
Other Capital Project Expenses	161,467	0	0	(161,467)	(345,952)
Interest - Long-Term Obligations	1,733,154	0	0	(1,733,154)	(2,671,281)
Depreciation - Unallocated	167,453	0	0	(167,453)	(167,453)
TOTALS	\$15,638,042	\$536,787	\$604,509	(\$14,496,746)	(\$15,106,812)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes				3,225,160	3,071,428
State Aid				11,475,396	10,991,561
Grants and Contributions Not Restricted to Specific Programs				4,330	6,147
Investment Earnings				279,711	655,342
Miscellaneous				32,310	75,257
Total General Revenues and Transfers				<u>\$15,016,907</u>	<u>\$14,799,735</u>
Change in Net Assets				\$520,161	(\$307,077)
Net Assets - Beginning - As Restated				<u>1,064,827</u>	<u>1,384,429</u>
<u>Net Assets - Ending</u>				<u>\$1,584,988</u>	<u>\$1,077,352</u>

See accompanying notes to the basic financial statements.

ALMONT COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	2002 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$2,044,518	\$0	\$393,793	\$2,438,311
Investments	1,523,649	3,758,864	157	5,282,670
Taxes Receivable	0	0	13,364	13,364
Accounts Receivable	538	0	0	538
Due from Other Governmental Units	2,167,935	0	0	2,167,935
Due from Other Funds	19,037	0	0	19,037
Inventory	0	0	6,974	6,974
<u>TOTAL ASSETS</u>	<u>\$5,755,677</u>	<u>\$3,758,864</u>	<u>\$414,288</u>	<u>\$9,928,829</u>
<u>LIABILITIES</u>				
Accounts Payable	\$285,767	\$1,111,637	\$8,613	\$1,406,017
State Aid Note Payable	1,500,000	0	0	1,500,000
Due to Other Governmental Units	7,788	0	0	7,788
Due to Other Funds	0	899	18,138	19,037
Salaries Payable	831,149	0	0	831,149
Accrued Expenses	436,006	0	0	436,006
Total Liabilities	\$3,060,710	\$1,112,536	\$26,751	\$4,199,997
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	0	0	6,974	6,974
Debt Retirement	0	0	249,942	249,942
Capital Projects	0	2,646,328	0	2,646,328
Unreserved:				
Undesignated, Reported In:				
General Fund	2,694,967	0	0	2,694,967
School Service Funds	0	0	130,621	130,621
Total Fund Balances	<u>\$2,694,967</u>	<u>\$2,646,328</u>	<u>\$387,537</u>	<u>\$5,728,832</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$5,755,677</u>	<u>\$3,758,864</u>	<u>\$414,288</u>	<u>\$9,928,829</u>

See accompanying notes to the basic financial statements.

ALMONT COMMUNITY SCHOOLS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total Governmental Fund Balances:		\$5,728,832
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,290,367 and the accumulated depreciation is \$6,335,380		16,954,987
Construction in Progress		20,377,377
Accrued Interest on Long-Term Debt		(542,232)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$37,407,312	
Michigan School Bond Loan Fund	3,417,551	
Compensated Absences Payable	109,113	
Total Long-Term Liabilities		<u>(40,933,976)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$1,584,988</u>

ALMONT COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	2002 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$1,102,964	\$214,147	\$2,783,341	\$4,100,452
State Sources	11,623,439	0	23,737	11,647,176
Federal Sources	281,563	0	95,451	377,014
Total Revenues	<u>\$13,007,966</u>	<u>\$214,147</u>	<u>\$2,902,529</u>	<u>\$16,124,642</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	8,011,449	0	0	8,011,449
Student Services	737,402	0	0	737,402
Instructional Support	462,034	0	0	462,034
General Administration	314,537	0	0	314,537
School Administration	733,743	0	0	733,743
Business Administration	228,334	0	0	228,334
Operation & Maintenance of Plant	1,077,814	0	0	1,077,814
Transportation	716,544	0	0	716,544
Support Services - Other	23,035	0	0	23,035
Community Services	139,173	0	0	139,173
Food Service	0	0	678,421	678,421
Debt Service	0	0	3,327,448	3,327,448
Capital Outlay				
Construction	0	7,538,009	0	7,538,009
Furniture and Equipment	0	1,718,540	0	1,718,540
Purchased Services	0	94,394	0	94,394
Site Development	0	1,146,788	0	1,146,788
Total Expenditures	<u>\$12,444,065</u>	<u>\$10,497,731</u>	<u>\$4,005,869</u>	<u>\$26,947,665</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$563,901	(\$10,283,584)	(\$1,103,340)	(\$10,823,023)
<u>OTHER FINANCING SOURCES (USES)</u>				
Loss on Sale of Securities	0	(161,467)	0	(161,467)
Loan Proceeds	0	0	937,992	937,992
Other Transfers	(38,800)	0	0	(38,800)
Transfers to Other Funds (Net)	<u>(231,620)</u>	<u>0</u>	<u>231,620</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(\$270,420)</u>	<u>(\$161,467)</u>	<u>\$1,169,612</u>	<u>\$737,725</u>
Net Change in Fund Balance	<u>\$293,481</u>	<u>(\$10,445,051)</u>	<u>\$66,272</u>	<u>(\$10,085,298)</u>
<u>FUND BALANCE - BEGINNING - AS RESTATED</u>	<u>2,401,486</u>	<u>13,091,379</u>	<u>321,265</u>	<u>15,814,130</u>
<u>FUND BALANCE - ENDING</u>	<u>\$2,694,967</u>	<u>\$2,646,328</u>	<u>\$387,537</u>	<u>\$5,728,832</u>

See accompanying notes to the basic financial statements.

ALMONT COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Total net change in fund balances - governmental funds	(\$10,085,298)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(549,707)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	1,650,000
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Construction in Progress	10,503,609
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Proceeds from MI School Bond Fund	(937,992)
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Change in accrued interest on long-term liabilities	(55,707)
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Increase in accrued compensated absences	<u>(4,744)</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$520,161</u></u>
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ALMONT COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$92,715</u>
<u>TOTAL ASSETS</u>	<u>\$92,715</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$92,715</u>
<u>TOTAL LIABILITIES</u>	<u>\$92,715</u>

See accompanying notes to the basic financial statements.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Almont Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment Pool - MICMS	\$ 8,838	0.0027	AAAm	0.17%
MILAF External Investment Pool - MIMAX	1,523,678	0.0027	AAAm	28.84%
Pooled Funds & Mutual Funds	3,750,154	0.0027	AAAm	70.99%
Total fair value	<u>\$ 5,282,670</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in investment pools which represents 100% of the District's total investments.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$3,298,867 of the District's bank balance of \$3,812,479 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$92,715	\$ 2,531,026
Investments	<u>5,282,670</u>
<u>TOTAL</u>	<u>\$ 7,813,696</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 92,715
Cash – District Wide	2,438,311
Investments – District Wide	<u>5,282,670</u>
<u>TOTAL</u>	<u>\$ 7,813,696</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 2,146,992
Grants Receivable	<u>20,943</u>
<u>TOTAL</u>	<u>\$ 2,167,935</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the School District had estimated claims of \$3,830 in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$1,500,000 at 3.0% per annum on August 26, 2004, from Tri-County Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance as of June 30, 2005 was \$1,500,000 plus accrued interest of \$38,219. The note matures August 26, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$21,132,087	\$0	\$0	\$21,132,087
Land Improvements	657,659	0	0	657,659
Equipment and Furniture	318,284	0	0	318,284
Vehicles	1,182,337	0	0	1,182,337
Totals at Historical Cost	\$23,290,367	\$0	\$0	\$23,290,367
Less: Accumulated Depreciation				
Buildings and Improvements	(4,896,301)	(421,697)	0	(5,317,998)
Land Improvements	(74,175)	(3,903)	0	(78,078)
Equipment and Furniture	(209,558)	(16,979)	0	(226,537)
Vehicles	(605,638)	(107,129)	0	(712,767)
Total Accumulated Depreciation	(\$5,785,672)	(\$549,708)	\$0	(\$6,335,380)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$17,504,695</u>	<u>(\$549,708)</u>	<u>\$0</u>	<u>\$16,954,987</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 250,865
Support Services	122,443
Food Service	2,161
Athletics	6,786
Unallocated	167,453
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 549,708</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

9) CAPITAL ASSETS (Continued)

Investment in capital assets – net of related debt consists of the following:

Construction in Progress	\$ 20,377,377
Capital Assets	23,290,367
Less: Accumulated Depreciation	(6,335,380)
Less: Long-Term Liabilities	(40,933,976)
Compensated Absences	109,113
2002 Capital Projects Fund Equity	<u>2,646,328</u>
 <u>TOTAL</u>	 <u>\$ (846,171)</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$85,850 and the School District received a dividend refund of \$12,799.

11) LONG-TERM LIABILITIES

A) 1991 REFUNDING BONDS

1991 Refunding Bonds, original issue \$1,400,000 were issued to refinance principal and interest owed to the State School Bond Loan Fund. The bonds, dated August 29, 1991, are due in remaining annual installments of \$105,000 to \$160,000 through May 15, 2005, with interest ranging between 6.00% and 6.75%. The balance as of June 30, 2005 was \$0.

B) 2002 REFUNDING BONDS

On March 5, 2002, the Almont Community Schools issued \$4,100,000 in General Obligation – Unlimited Tax Bonds with an average interest ranging from of 3.00% to 4.50%. The District issued the bonds to advance refund \$3,985,000 of the outstanding 1992 Refunding Bonds with a interest rate ranging from 6.100% to 6.625%. The net proceeds were deposited with an escrow agent and used to purchase U.S. Government Securities. These securities will provide for all future debt service on the 1992 Refunding Bonds. As a result, the 1992 Refunding Bonds are considered defeased and the District has removed the liability from its accounts. The outstanding principal of the bonds is \$2,840,000 at June 30, 2005.

C) 1996 BUILDING AND SITE BONDS

1996 Building and Site Bonds, original issue \$12,195,000 were issued to finance the construction of a new elementary school. The bonds, dated November 1, 1996, are due in annual installments of \$245,000 to \$1,295,000 through May 15, 2006, with interest rates ranging from 5.375% to 7.875%. The balance as of June 30, 2005 was \$325,000.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

11) GENERAL LONG-TERM DEBT (Continued)

D) 2002 BUILDING AND SITE BONDS

2002 Building and Site Bonds, original issue \$22,350,000 were issued to finance the cost to prepare and develop a site, including playfield and erect, construct, complete, equip and furnish thereon a new middle school building; prepare and develop a site and construct, erect, complete, equip and furnish thereon a new bus maintenance facility; purchase, install, equip, and reequip school buildings for technology; construct, remodel, equip and reequip, furnish and refurnish, and improve the buildings and sites, including playgrounds, playfields and/or physical education fields and athletic sites and facilities at the existing Orchard Primary School, Almont Elementary School and Jr/Sr High School. The bonds, dated October 30, 2002, are due in annual installments of \$525,000 to \$975,000 through May 1, 2032, with interest rates ranging from 2.00% to 5.00%. The balance as of June 30, 2005 was \$21,275,000.

E) 1998 DURANT BONDS

Almont Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$97,533 at the interest rate of 4.761353%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance as of June 30, 2005 was \$62,312. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

F) 2004 REFUNDING BONDS

On February 25, 2004, the Almont Community Schools issued \$13,060,000 in General Obligation – Unlimited Tax Bonds with an average interest ranging from of 2.00% to 4.15%. The District issued the bonds to advance refund \$9,150,000 of the outstanding 1996 Bond Issue with a interest rate ranging from 5.375% to 7.875% and \$3,030,000 of the outstanding 1994 Refunding Bonds with a interest rate ranging from 4.8% to 5.25%. The net proceeds were deposited with an escrow agent and used to purchase U.S. Government Securities. These securities will provide for all future debt service on the 1992 Refunding Bonds. As a result, the 1994 Refunding Bonds and a portion of the 1996 Bond Issue are considered defeased and the District has removed the liability from its accounts. The balance of the 2004 Refunding Bonds as of June 30, 2005 was \$12,905,000.

G) MICHIGAN SCHOOL BOND LOAN FUND

The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years sufficient to extinguish the interest and principal requirements of the 1987 Debt Issue as they become due. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements for the 1987 Debt Issue. The loan shall bear interest at the average interest rate computed to the nearest one-eighth of one percent, paid by the State on obligations issued pursuant to Section 16 of Article IX of the State Constitution of 1983. Interest of \$95,435 has been assessed for the year ended June 30, 2005, and is included in the amount owing the State at that date. The principal balance as of June 30, 2005 was \$3,417,551.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

11) GENERAL LONG-TERM DEBT (Continued)

H) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2005 are as follows:

	MI SCHOOL BOND LOAN FUND	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2006	\$0	\$1,499,721	\$1,527,677	\$3,027,398
June 30, 2007	0	1,539,945	1,475,244	3,015,189
June 30, 2008	0	1,565,182	1,433,697	2,998,879
June 30, 2009	0	1,600,428	1,385,356	2,985,784
June 30, 2010	0	1,635,686	1,331,023	2,966,709
June 30, 2011-2015	0	8,806,350	5,739,218	14,545,568
June 30, 2016-2020	0	6,845,000	4,164,310	11,009,310
June 30, 2021-2025	0	6,790,000	2,657,301	9,447,301
June 30, 2026-2030	0	5,175,000	1,152,373	6,327,373
June 30, 2031-2034	0	1,950,000	328,550	2,278,550
Thereafter	3,417,551	0	0	3,417,551
<u>TOTAL</u>	<u>\$3,417,551</u>	<u>\$37,407,312</u>	<u>\$21,194,749</u>	<u>\$62,019,612</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$1,676,424.

I) Changes in General Long-Term Debt

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2005:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
School Bond Loan Fund	\$2,479,559	\$937,992	\$0	\$3,417,551	\$0
Building & Site Bonds	38,995,000	0	1,650,000	37,345,000	1,495,000
Durant Bonds	62,312	0	0	62,312	4,721
Compensated Absences	104,369	4,744	0	109,113	0
<u>Total Governmental Activities</u>	<u>\$41,641,240</u>	<u>\$942,736</u>	<u>\$1,650,000</u>	<u>\$40,933,976</u>	<u>\$1,499,721</u>

12) FUND BALANCE RESTATEMENT

The 2002 Capital Projects Fund fund balance was restated as of June 30, 2004, by \$12,525 to correct an accounting error from a prior period.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

13) LEASE AGREEMENTS

The School District leases various office equipment and facilities under operating leases expiring in various years through 2010. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2005, for each of the following years and in the aggregate are:

June 30, 2006	\$ 53,424
June 30, 2007	44,803
June 30, 2008	44,803
June 30, 2009	44,803
June 30, 2010	14,934
	<hr/>
<u>TOTALS</u>	<u>\$ 202,767</u>

Fiscal year 2004 operating lease payments were \$57,516.

14) INTERFUND ACTIVITY

Interfund balances at June 30, 2005 consisted of the following:

DUE FROM	
DUE TO	SPECIAL
	REVENUE
	<u>FUND</u>
General Fund	<u>\$19,037</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

15) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	GENERAL
	<u>FUND</u>
Athletics Fund	<u>\$231,620</u>

These transfers were made to subsidized the cost of services for athletics.

16) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

16) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$1,092,598, \$949,703 and \$909,973, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

17) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

18) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies.

19) SUBSEQUENT EVENTS

The District has approved borrowing \$1,000,000 from Tri-County Bank to meet cash flow needs for the 2005-2006 fiscal year. The Bonds will be issued August 23, 2005 at a interest rate of 2.64%.

REQUIRED
SUPPLEMENTARY
INFORMATION

ALMONT COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$221,832	\$1,066,130	\$1,102,964	\$36,834
State Sources	12,189,855	11,553,107	11,623,439	70,332
Federal Sources	242,551	280,358	281,563	1,205
Total Revenues	<u>\$12,654,238</u>	<u>\$12,899,595</u>	<u>\$13,007,966</u>	<u>\$108,371</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	8,065,623	8,053,071	8,011,449	41,622
Student Services & Instructional Support	1,163,081	1,196,574	1,199,436	(2,862)
General Administration	348,543	316,175	314,537	1,638
School Administration	751,168	734,124	733,743	381
Business Services	2,189,256	2,117,721	2,022,692	95,029
Support Services - Other	53,250	28,169	23,035	5,134
Community Services	134,858	150,422	139,173	11,249
Total Expenditures	<u>\$12,705,779</u>	<u>\$12,596,256</u>	<u>\$12,444,065</u>	<u>\$152,191</u>
Excess of Revenues Over Expenditures	<u>(\$51,541)</u>	<u>\$303,339</u>	<u>\$563,901</u>	<u>\$260,562</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(406,642)</u>	<u>(275,095)</u>	<u>(270,420)</u>	<u>4,675</u>
Net Change in Fund Balance	<u>(\$458,183)</u>	<u>\$28,244</u>	<u>\$293,481</u>	<u>\$265,237</u>
<u>FUND BALANCE - BEGINNING</u>			<u>2,401,486</u>	
<u>FUND BALANCE - ENDING</u>			<u><u>\$2,694,967</u></u>	

OTHER SUPPLEMENTAL
INFORMATION

ALMONT COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005

	School Service Fund	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$157,372	\$236,421	\$393,793
Investments	0	157	157
Taxes Receivable	0	13,364	13,364
Inventory	6,974	0	6,974
<u>TOTAL ASSETS</u>	<u>\$164,346</u>	<u>\$249,942</u>	<u>\$414,288</u>
<u>LIABILITIES</u>			
Accounts Payable	\$8,613	\$0	\$8,613
Due to Other Funds	18,138	0	18,138
Total Liabilities	\$26,751	\$0	\$26,751
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	6,974	0	6,974
Debt Retirement	0	249,942	249,942
Unreserved:			
Undesignated, Reported In:			
School Service Fund	130,621	0	130,621
Total Fund Balances	\$137,595	\$249,942	\$387,537
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$164,346</u>	<u>\$249,942</u>	<u>\$414,288</u>

ALMONT COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	School Service Fund	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$354,517	\$2,428,824	\$2,783,341
State Sources	23,737	0	23,737
Federal Sources	95,451	0	95,451
Total Revenues	<u>\$473,705</u>	<u>\$2,428,824</u>	<u>\$2,902,529</u>
<u>EXPENDITURES</u>			
Food Service	678,421	0	678,421
Debt Service	0	3,327,448	3,327,448
Total Expenditures	<u>\$678,421</u>	<u>\$3,327,448</u>	<u>\$4,005,869</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$204,716)	(\$898,624)	(\$1,103,340)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Other Funds	231,620	0	231,620
Other Transfers - Net	0	937,992	937,992
Total Other Financing Sources (Uses)	<u>\$231,620</u>	<u>\$937,992</u>	<u>\$1,169,612</u>
Net Change in Fund Balance	\$26,904	\$39,368	\$66,272
<u>NET ASSETS - BEGINNING</u>	<u>110,691</u>	<u>210,574</u>	<u>321,265</u>
<u>NET ASSETS - ENDING</u>	<u>\$137,595</u>	<u>\$249,942</u>	<u>\$387,537</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEETS
AS OF JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$156,546	\$826	\$157,372
Inventory	<u>6,974</u>	<u>0</u>	<u>6,974</u>
<u>TOTAL ASSETS</u>	<u>\$163,520</u>	<u>\$826</u>	<u>\$164,346</u>
<u>LIABILITIES</u>			
Accounts Payable	\$8,227	\$386	\$8,613
Due to Other Funds	<u>17,698</u>	<u>440</u>	<u>18,138</u>
Total Liabilities	\$25,925	\$826	\$26,751
<u>FUND EQUITY</u>			
Fund Balance - Reserved - Inventory	6,974	0	6,974
Fund Balance - Unreserved and Undesignated	<u>130,621</u>	<u>0</u>	<u>130,621</u>
Total Fund Equity	<u>\$137,595</u>	<u>\$0</u>	<u>\$137,595</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$163,520</u>	<u>\$826</u>	<u>\$164,346</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Gate Receipts	\$0	\$37,814	\$37,814
Earnings on Investments and Deposits	3,157	38	3,195
Lunch Sales	310,377	0	310,377
Miscellaneous	3,131	0	3,131
Total Local Sources	<u>\$316,665</u>	<u>\$37,852</u>	<u>\$354,517</u>
<u>State Sources</u>	23,737	0	23,737
<u>Federal Sources</u>			
Federal Reimbursements	88,894	0	88,894
Commodities	6,557	0	6,557
Total Federal Sources	<u>\$95,451</u>	<u>\$0</u>	<u>\$95,451</u>
Total Revenues	<u>\$435,853</u>	<u>\$37,852</u>	<u>\$473,705</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	231,620	231,620
Total Revenues and Other Financing Sources	<u>\$435,853</u>	<u>\$269,472</u>	<u>\$705,325</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	74,454	177,093	251,547
Insurances	17,711	0	17,711
Fica, Retirement, Etc.	17,471	39,518	56,989
Other Benefits	1,800	0	1,800
Purchased Services	65,218	22,844	88,062
Supplies and Materials	210,267	3,145	213,412
Capital Outlay	0	17,622	17,622
Other	22,028	9,250	31,278
Total Expenditures	<u>\$408,949</u>	<u>\$269,472</u>	<u>\$678,421</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$26,904</u>	<u>\$0</u>	<u>\$26,904</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$110,691</u>	<u>\$0</u>	<u>\$110,691</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$137,595</u>	<u>\$0</u>	<u>\$137,595</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
DEBT RETIREMENT FUND
COMBINING BALANCE SHEETS
AS OF JUNE 30, 2005

	1986 DEBT	1996 DEBT	2002 DEBT	2004 DEBT	Total After Interfund Eliminations
<u>ASSETS</u>					
Cash and Cash Equivalents	\$56,209	\$25,083	\$108,695	\$46,434	\$236,421
Investments	157	0	0	0	157
Taxes Receivable	3,127	1,415	6,172	2,650	13,364
Due from Other Debt Funds	0	0	0	457,423	0
<u>TOTAL ASSETS</u>	<u>\$59,493</u>	<u>\$26,498</u>	<u>\$114,867</u>	<u>\$506,507</u>	<u>\$249,942</u>
<u>LIABILITIES</u>					
Due to Other Debt Funds	\$102,413	\$355,010	\$0	\$0	\$0
<u>FUND EQUITY</u>					
Fund Balance - Reserved - Debt Retirement	(42,920)	(328,512)	114,867	506,507	249,942
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$59,493</u>	<u>\$26,498</u>	<u>\$114,867</u>	<u>\$506,507</u>	<u>\$249,942</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	<u>1986</u>	<u>1996</u>	<u>2002</u>	<u>2004</u>	<u>Total After</u>
	<u>DEBT</u>	<u>DEBT</u>	<u>DEBT</u>	<u>DEBT</u>	<u>Interfund</u>
					<u>Eliminations</u>
<u>REVENUES</u>					
<u>Local Sources</u>					
Property Tax Levy	\$572,597	\$257,181	\$1,112,040	\$475,004	\$2,416,822
Earnings on Investments	2,939	1,437	5,378	2,248	12,002
Total Local Sources	<u>\$575,536</u>	<u>\$258,618</u>	<u>\$1,117,418</u>	<u>\$477,252</u>	<u>\$2,428,824</u>
<u>OTHER FINANCING SOURCES</u>					
Loan Proceeds	<u>265,146</u>	<u>279,832</u>	<u>393,014</u>	<u>0</u>	<u>937,992</u>
Total Revenues and Other Financing Sources	<u>\$840,682</u>	<u>\$538,450</u>	<u>\$1,510,432</u>	<u>\$477,252</u>	<u>\$3,366,816</u>
<u>EXPENDITURES</u>					
Redemption of Bond Principal	670,000	430,000	550,000	0	1,650,000
Interest on Bonded Debt	265,426	484,404	926,593	0	1,676,423
Dues and Fees	363	412	250	0	1,025
Total Expenditures	<u>\$935,789</u>	<u>\$914,816</u>	<u>\$1,476,843</u>	<u>\$0</u>	<u>\$3,327,448</u>
<u>EXCESS REVENUES AND OTHER</u>					
<u>FINANCING SOURCES OVER</u>					
<u>(UNDER) EXPENDITURES</u>	<u>(\$95,107)</u>	<u>(\$376,366)</u>	<u>\$33,589</u>	<u>\$477,252</u>	<u>\$39,368</u>
<u>FUND BALANCE -</u>					
<u>BEGINNING OF YEAR</u>	<u>\$52,187</u>	<u>\$47,854</u>	<u>\$81,278</u>	<u>\$29,255</u>	<u>\$210,574</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>(\$42,920)</u>	<u>(\$328,512)</u>	<u>\$114,867</u>	<u>\$506,507</u>	<u>\$249,942</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2005

REVENUES FROMLocal Sources

Property Tax Levy	\$808,338
Earnings on Investments and Deposits	50,817
Transportation Revenue	23,553
Tuition	32,551
Latchkey	64,319
Rentals	7,766
Enrichment Programs	60,407
Medicaid Outreach	26,265
Other Local Revenues	28,948
Total Revenues from Local Sources	<u>\$1,102,964</u>

State Sources

Unrestricted	
State Aid - Foundation - Sec. 20	11,475,396
Restricted	
Early Childhood	29,700
Court/State Agency Placed	9,299
At Risk	99,291
Durant	9,753
Total Revenues from State Sources	<u>\$11,623,439</u>

Federal Sources

Title I	78,762
Title I - Migrant	25,196
Title V	1,091
Homeland Security	15,909
Improving Teacher Quality	50,294
Technology Literacy	1,997
Capacity Building	1,717
Learn and Serve America Grant	600
IDEA Flowthrough	105,997
Total Revenues from Federal Sources	<u>\$281,563</u>
Total Revenues	<u>\$13,007,966</u>

OTHER FINANCING SOURCES

Transfer from Other Districts	29,450
Refund Prior Year Expenditures	4,111
Total Other Financing Sources	<u>\$33,561</u>

TOTAL REVENUES AND OTHER
FINANCING SOURCES

\$13,041,527

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTIONBASIC PROGRAMSOrchard Primary

Salaries - Professional	\$1,105,986
Salaries - Non-Professional	25,518
Insurances	220,799
Fica, Retirement, Etc.	254,892
Other Benefits	22,196
Purchased Services	17,641
Supplies and Materials	48,061
Other	19,713
Total Orchard Primary	<u>\$1,714,806</u>

Almont Elementary

Salaries - Professional	1,385,099
Salaries - Non-Professional	37,646
Insurances	324,739
Fica, Retirement, Etc.	318,997
Other Benefits	22,196
Purchased Services	19,444
Supplies and Materials	72,419
Capital Outlay	207
Other	106
Total Almont Elementary	<u>\$2,180,853</u>

Secondary School

Salaries - Professional	1,862,996
Salaries - Non-Professional	72,892
Insurances	465,246
Fica, Retirement, Etc.	434,301
Other Benefits	30,723
Purchased Services	29,703
Supplies and Materials	139,611
Capital Outlay	29,201
Other	1,150
Total Secondary School	<u>\$3,065,823</u>

Preschool - Orchard Primary

Salaries - Professional	32,931
Salaries - Non-Professional	6,180
Fica, Retirement, Etc.	8,779
Purchased Services	584
Supplies and Materials	3,347
Other	280
Total Preschool - Orchard Primary	<u>\$52,101</u>

Total Basic Programs

\$7,013,583

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)ADDED NEEDSSpecial Education

Salaries - Professional	\$370,553
Salaries - Non-Professional	150,139
Insurances	146,597
Fica, Retirement, Etc.	117,231
Other Benefits	10,028
Purchased Services	612
Supplies and Materials	2,128
Other	35
Total Special Education	<u>\$797,323</u>

Compensatory Education

Salaries - Non-Professional	158,643
Fica, Retirement, Etc.	35,973
Purchased Services	2,674
Supplies and Materials	3,253
Total Compensatory Education	<u>\$200,543</u>

Total Added Needs\$997,866TOTAL INSTRUCTION

\$8,011,449

SUPPORT SERVICESStudent Services

Salaries - Professional	301,852
Salaries - Non-Professional	194,069
Insurances	62,320
Fica, Retirement, Etc.	111,427
Other Benefits	7,949
Purchased Services	46,412
Supplies and Materials	13,045
Other	328
Total Student Services	<u>\$737,402</u>

Instructional Staff

Salaries - Professional	70,958
Salaries - Non-Professional	131,439
Insurances	42,225
Fica, Retirement, Etc.	47,503
Other Benefits	3,000
Purchased Services	56,807
Supplies and Materials	109,502
Other	600
Total Instructional Staff	<u>\$462,034</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)General Administration

Salaries - Professional	\$108,760
Salaries - Non-Professional	53,882
Insurances	30,724
Fica, Retirement, Etc.	32,315
Other Benefits	7,000
Purchased Services	58,523
Supplies and Materials	3,446
Capital Outlay	229
Other	19,658
Total General Administration	<u>\$314,537</u>

School Administration

Salaries - Professional	311,508
Salaries - Non-Professional	166,279
Insurances	81,699
Fica, Retirement, Etc.	105,602
Other Benefits	28,489
Purchased Services	27,425
Supplies and Materials	11,577
Capital Outlay	449
Other	715
Total School Administration	<u>\$733,743</u>

Business Office

Salaries - Professional	52,530
Salaries - Non-Professional	34,134
Insurances	36,138
Fica, Retirement, Etc.	20,630
Other Benefits	11,419
Purchased Services	14,105
Supplies and Materials	1,410
Other	57,968
Total Business Office	<u>\$228,334</u>

Operation and Maintenance of Plant

Salaries - Professional	15,965
Salaries - Non-Professional	298,623
Insurances	66,835
Fica, Retirement, Etc.	72,108
Other Benefits	5,485
Purchased Services	266,553
Supplies and Materials	348,812
Capital Outlay	931
Other	2,502
Total Operation and Maintenance of Plant	<u>\$1,077,814</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

<u>SUPPORT SERVICES (Continued)</u>	
<u>Transportation</u>	
Salaries - Professional	\$47,895
Salaries - Non-Professional	345,049
Insurances	106,561
Fica, Retirement, Etc.	90,987
Other Benefits	8,677
Purchased Services	22,084
Supplies and Materials	92,067
Other	3,224
Total Transportation	<u>\$716,544</u>
<u>Other Support Services</u>	
Purchased Services	<u>23,035</u>
<u>TOTAL SUPPORT SERVICES</u>	<u>\$4,293,443</u>
<u>COMMUNITY SERVICES</u>	
Salaries - Professional	51,723
Salaries - Non-Professional	46,541
Insurances	13,726
Fica, Retirement, Etc.	18,460
Supplies and Materials	8,067
Other	656
Total Community Services	<u>\$139,173</u>
<u>TOTAL EXPENDITURES</u>	<u>\$12,444,065</u>
<u>OTHER FINANCING USES</u>	
Transfers to Other Funds	231,620
Transfers to Other Districts	<u>72,361</u>
<u>TOTAL OTHER FINANCING USES</u>	<u>\$303,981</u>
<u>TOTAL EXPENDITURES & OTHER FINANCING USES</u>	<u><u>\$12,748,046</u></u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
TRUST AND AGENCY FUNDS
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
<u>Elementary School</u>				
Band	\$18	\$1,472	\$1,472	\$18
Book Fund	234	258	170	322
Boys' Basketball	603	688	1,291	0
Choir	216	587	591	212
Counsel - Emer	291	0	205	86
Counsel - Scholarship	82	0	0	82
EMI	376	833	497	712
General	3,251	8,133	8,733	2,651
Girls' Basketball	1,082	750	1,283	549
Grade 3	310	5,793	5,665	438
Grade 4	455	4,533	3,641	1,347
Grade 5	3,133	4,645	4,355	3,423
Grade 6	1,578	14,347	14,597	1,328
Grants	1,854	3,151	3,725	1,280
K of C Funds	1,464	11	459	1,016
Library/Reading	630	25	285	370
Office	37	5	42	0
Pop Machine	2,340	1,064	1,523	1,881
Resource	838	315	752	401
Student Council	391	4,661	4,326	726
T.A.G.	4,429	0	0	4,429
Varsity BB Fundraising	2,124	0	2,124	0
Total Elementary School	\$25,736	\$51,271	\$55,736	\$21,271
<u>Orchard Primary School</u>				
Art	195	0	0	195
Choir	555	0	0	555
Friends of Library	419	128	405	142
General	4,752	2,552	1,830	5,474
Grade 1	477	2,906	2,606	777
Grade 2	1,037	1,367	1,237	1,167
Grants	2,956	1,428	929	3,455
K of C	799	0	386	413
Kindergarten	1,244	3,668	3,425	1,487
Memorial Fund	300	0	0	300
Pop Machine	492	1,036	1,172	356
Special Education	1,898	530	14	2,414
Student Council	279	0	0	279
Total Orchard Primary	\$15,403	\$13,615	\$12,004	\$17,014

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN

TRUST AND AGENCY FUNDS

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

AS OF JUNE 30, 2005

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
<u>High School</u>				
Almont Varsity Singers	\$499	\$1,150	\$1,239	\$410
American Sign Language	\$0	\$167	\$165	2
Athletics	(525)	27,000	27,165	(690)
Band Resale	680	4,746	5,426	0
Baseball	231	991	631	591
Basketball - Boys	0	5,586	5,621	(35)
Book Fines	3,756	791	0	4,547
Boys' Track	8	0	0	8
Cheerleaders - Jr. High	99	855	856	98
Cheerleaders - JV	130	0	0	130
Cheerleaders - Varsity	206	1,577	1,080	703
Choir - Jr. High	30	0	0	30
Class of 2003	14	0	14	0
Class of 2004	288	0	288	0
Class of 2005	2,274	3,140	5,414	0
Class of 2006	3,879	11,408	12,579	2,708
Class of 2007	2,616	200	0	2,816
Class of 2008	4,643	312	269	4,686
Class of 2009	1,623	958	0	2,581
Class of 2010	0	1,475	692	783
Cross Country	0	588	566	22
Dance Team	0	1,117	669	448
Drama	6,663	4,782	11,442	3
Drivers Ed	500	0	0	500
French Club	2,288	3,009	2,659	2,638
Football - Varsity	1,700	2,631	2,955	1,376
General	5,296	18,921	23,639	578
Girls' Basketball	50	0	0	50
Girls' Track	88	590	545	133
Grants	333	0	0	333
Knights of Columbus	1,038	145	908	275
Library	520	406	774	152
Medical Charity	2,185	0	0	2,185
Middle School Student Council	968	2,762	2,429	1,301
National Honor Society	536	1,596	1,804	328
Performing Arts	754	0	359	395
Physical Science	24	0	0	24
Science Dept.	11	468	479	0
Ski Club	216	0	0	216

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN

TRUST AND AGENCY FUNDS

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

AS OF JUNE 30, 2005

STUDENT GROUPS	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
<u>High School (Continued)</u>				
Soccer	\$1,196	\$4,856	\$4,949	\$1,103
Softball	3	2,635	2,634	4
Spanish Club	507	3,181	2,247	1,441
Special Ed	1,572	922	683	1,811
Student Council	491	7,790	5,093	3,188
Talac	323	0	0	323
Tennis	359	2,890	2,774	475
Track - Jr. High	248	1,565	1,593	220
Varsity Club	6,875	6,789	6,030	7,634
Volleyball	19	348	360	7
Woodshop	108	0	108	0
Wrestling	247	0	0	247
Xmas Families	0	405	386	19
Yearbook	9,099	6,980	8,446	7,633
Total High School	<u>\$64,668</u>	<u>\$135,732</u>	<u>\$145,970</u>	<u>\$54,430</u>
<u>TOTAL STUDENT GROUPS</u>	<u>\$105,807</u>	<u>\$200,618</u>	<u>\$213,710</u>	<u>\$92,715</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1996 BOND ISSUE

DATE OF ISSUE - November 1, 1996

Original amount of issue - \$12,195,000

<u>PAYMENT DATE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
May 15, 2006	7.000%	\$325,000	\$22,750	\$347,750

2002 REFUNDING BONDS

DATE OF ISSUE - March 5, 2002

Original amount of issue - \$4,100,000

<u>PAYMENT DATE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
May 15, 2006	3.150%	\$455,000	\$113,029	\$568,029
May 15, 2007	3.750%	465,000	98,696	563,696
May 15, 2008	4.125%	475,000	81,259	556,259
May 15, 2009	4.500%	505,000	61,665	566,665
May 15, 2010	4.100%	540,000	38,940	578,940
May 15, 2011	4.200%	400,000	16,800	416,800
<u>TOTALS</u>		<u>\$2,840,000</u>	<u>\$410,389</u>	<u>\$3,250,389</u>

1998 DURANT

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$97,533

<u>PAYMENT DATE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
May 15, 2006	4.761353%	\$4,721	\$2,128	\$6,849
May 15, 2007	4.761353%	4,945	1,903	6,848
May 15, 2008	4.761353%	5,182	1,668	6,850
May 15, 2009	4.761353%	5,428	1,421	6,849
May 15, 2010	4.761353%	5,686	1,163	6,849
May 15, 2011	4.761353%	23,573	8,748	32,321
May 15, 2012	4.761353%	6,240	608	6,848
May 15, 2013	4.761353%	6,537	311	6,848
<u>TOTAL</u>		<u>\$62,312</u>	<u>\$17,950</u>	<u>\$80,262</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2002 BUILDING & SITE BONDS

DATE OF ISSUE - October 30, 2002

Original amount of issue - \$22,350,000

<u>PAYMENT DATE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
May 15, 2006	2.150%	\$550,000	\$915,594	\$1,465,594
May 15, 2007	2.450%	550,000	903,769	1,453,769
May 15, 2008	2.750%	550,000	890,294	1,440,294
May 15, 2009	3.000%	550,000	875,169	1,425,169
May 15, 2010	3.200%	550,000	858,669	1,408,669
May 15, 2011	5.000%	550,000	841,069	1,391,069
May 15, 2012	4.000%	550,000	813,569	1,363,569
May 15, 2013	3.600%	550,000	791,569	1,341,569
May 15, 2014	3.750%	625,000	771,769	1,396,769
May 15, 2015	3.900%	705,000	748,331	1,453,331
May 15, 2016	4.000%	825,000	720,836	1,545,836
May 15, 2017	4.125%	895,000	687,836	1,582,836
May 15, 2018	4.200%	895,000	650,918	1,545,918
May 15, 2019	4.300%	895,000	613,328	1,508,328
May 15, 2020	4.400%	895,000	574,843	1,469,843
May 15, 2021	4.500%	895,000	535,463	1,430,463
May 15, 2022	5.000%	895,000	495,188	1,390,188
May 15, 2023	5.000%	895,000	450,438	1,345,438
May 15, 2024	5.000%	895,000	405,687	1,300,687
May 15, 2025	5.000%	895,000	360,937	1,255,937
May 15, 2026	5.000%	895,000	316,187	1,211,187
May 15, 2027	5.000%	895,000	271,437	1,166,437
May 15, 2028	4.650%	975,000	226,687	1,201,687
May 15, 2029	4.650%	975,000	181,350	1,156,350
May 15, 2030	4.650%	975,000	136,012	1,111,012
May 15, 2031	4.650%	975,000	90,675	1,065,675
May 15, 2032	4.650%	975,000	45,337	1,020,337
<u>TOTALS</u>		<u>\$21,275,000</u>	<u>\$15,172,961</u>	<u>\$36,447,961</u>

ALMONT COMMUNITY SCHOOLS - ALMONT, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2004 REFUNDING BONDS

DATE OF ISSUE - February 25, 2004

Original amount of issue - \$13,060,000

<u>PAYMENT DATE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
May 15, 2006	2.000%	\$165,000	\$474,176	\$639,176
May 15, 2007	2.000%	520,000	470,876	990,876
May 15, 2008	2.500%	535,000	460,476	995,476
May 15, 2009	2.750%	540,000	447,101	987,101
May 15, 2010	3.000%	540,000	432,251	972,251
May 15, 2011	3.000%	720,000	416,051	1,136,051
May 15, 2012	3.500%	1,160,000	394,451	1,554,451
May 15, 2013	3.500%	1,165,000	353,851	1,518,851
May 15, 2014	3.750%	1,175,000	313,076	1,488,076
May 15, 2015	4.000%	1,170,000	269,014	1,439,014
May 15, 2016	3.800%	500,000	222,214	722,214
May 15, 2017	4.000%	495,000	203,214	698,214
May 15, 2018	4.000%	490,000	183,414	673,414
May 15, 2019	4.150%	480,000	163,814	643,814
May 15, 2020	4.375%	475,000	143,894	618,894
May 15, 2021	4.375%	475,000	123,113	598,113
May 15, 2022	4.375%	470,000	102,331	572,331
May 15, 2023	4.375%	465,000	81,769	546,769
May 15, 2024	4.500%	455,000	61,425	516,425
May 15, 2025	4.500%	450,000	40,950	490,950
May 15, 2026	4.500%	460,000	20,700	480,700
<u>TOTALS</u>		<u>\$12,905,000</u>	<u>\$5,378,161</u>	<u>\$18,283,161</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 2, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Almont Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Almont Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the Almont Community Schools' basic financial statements and have issued our report thereon dated August 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Almont Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Almont Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Almont Community Schools, in a separate letter dated August 2, 2005.

This report is intended solely for the information and use of the finance committee, management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf, P.C.
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 2, 2005

To the Board of Education of
Almont Community Schools

In planning and performing our audit of the financial statements of Almont Community Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Almont Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, Almont Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Almont Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASBS No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)



Almont Community Schools
Page 2
August 2, 2005

- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Almont Community Schools’ Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS